



The Commonwealth of Massachusetts
DEPARTMENT OF
TELECOMMUNICATIONS AND ENERGY

D.T.E. 06-42

July 14, 2006

Petition of Bay State Gas Company for a precedent agreement for firm natural gas storage and related agreements.

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- and -

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FOR: BAY STATE GAS COMPANY
Petitioner

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I. INTRODUCTION

On April 28, 2006, Bay State Gas Company (“Bay State” or “Company”) filed a petition with the Department of Telecommunications and Energy (“Department”) seeking approval of a precedent agreement for firm natural gas storage with Washington 10 Storage Corporation¹ (“Washington 10”) and long-term transportation agreements with Vector Pipeline Limited Partnership and Vector Pipeline L.P. (together, “Vector”). Bay State requested expeditious approval so that the Washington 10 and Vector agreements (“Agreements”) can take effect on August 1, 2006 (Tr. at 22-23).

On May 31, 2006, pursuant to notice duly issued, the Department held a public and evidentiary hearing. The Attorney General of the Commonwealth (“Attorney General”) intervened as of right pursuant to G.L. c. 12, § 11E.

The Company sponsored the testimony of Francisco C. DaFonte, director of energy supply services for NiSource Corporate Services Company. The evidentiary record consists of 34 exhibits, and one record request response. The Company and the Attorney General submitted initial briefs on June 13, 2006, and the Company submitted a reply brief on June 15, 2006.

¹ Washington 10 is a subsidiary of DTE Gas Storage Company, which owns, operates and develops natural gas storage projects. DTE Gas storage Company is a division of DTE Gas Storage, Pipelines and Processing Company, which is, in turn, a wholly-owned subsidiary of DTE Energy Company (“DTE Energy”), a Detroit, Michigan-based diversified energy company (Exh. BSG-1, at 1).

II. STANDARD OF REVIEW

In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for the acquisition of capacity under G.L. c. 164, § 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U. 94-174-A at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent with the public interest, a local gas distribution company ("LDC") must show that the acquisition (1) is consistent with the company's portfolio objectives and (2) compares favorably to the range of alternative options reasonably available to the company at the time of the acquisition or contract negotiation. Id.

In establishing that a resource is consistent with the company's portfolio objectives, the company may refer to the portfolio objectives established in a recently approved forecast and requirements plan or in a recent review of supply contracts under G.L. c. 164, § 94A, or may describe its objectives in the filing accompanying the resource proposal. Id. In comparing the proposed resource acquisition to current market offerings, the Department examines relevant price and non-price attributes of each contract to ensure a contribution to the strength of the overall supply portfolio. Id. at 28. As part of the review of price and non-price attributes, the Department considers whether the pricing terms are competitive with those of the broad range of capacity, storage, and commodity options that were available to the LDC at the time of the acquisition, as well as those opportunities that were available to other LDCs in the region. Id. In addition, the Department determines whether the acquisition satisfies the LDC's non-price

objectives, including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

III. DESCRIPTION OF THE AGREEMENTS

A. The Washington 10 Storage Agreement

The Company states that it entered into a long-term storage agreement (“Gas Storage Service Agreement” or “GSSA”) with Washington 10 for firm service to allow the Company to increase system flexibility and lower natural gas costs to Bay State’s customers (Exh. BSG-1, at 3). Specifically, under the GSSA, Washington 10 will provide firm storage service to Bay State from Washington 10's storage field located in eastern Michigan pursuant to the recourse rate under Washington 10's rate schedule S-1 for a term of approximately ten years commencing on or about August 1, 2006, and terminating on March 31, 2016 (id. at 10). The maximum storage quantity under the GSSA is 1,821,500 decatherms (“Dth”) and the maximum daily withdrawal quantity is 26,500 Dth, with primary receipt and delivery points at Washington 10's interconnect with Vector Pipeline L.P. (“Vector”) (id.).

According to Bay State, the execution of the GSSA is contingent upon Bay State and Washington 10 obtaining all regulatory approvals by August 1, 2006 (id. at 12). The GSSA will be terminated if Bay State does not receive Department approval by August 1, 2006 (id. at 13). Bay State represents that the Company also entered into a short-term (i.e., less than one year) parking² arrangement with Washington 10 (id. at 11). The arrangement will allow

² Parking occurs when a customer buys gas and transfer the gas to a third party who holds it in a storage facility until the customer calls for the “parked” gas (Tr. at 18-19).
(continued...)

Bay State to transfer all parked volumes into storage inventory upon approval of the long-term Washington 10 Agreement (id.).

B. The Vector Agreement

Bay State represents that the Company entered into three long-term, nine-year firm transportation contracts with Vector beginning on April 1, 2007, pursuant to a discounted rate under Vector's firm transportation service rate schedule FT-1 (id. at 10). Two of the contracts fall under the jurisdiction of the Federal Energy Regulatory Commission (id. at 10-11). The first contract runs from the interconnect with Alliance Pipeline in Joliet, Illinois (i.e., the Chicago citygate) to the interconnect with Washington 10 for up to 14,645 Dth of capacity per day (id. at 11). The second contract runs from the interconnect with Washington 10 to the United States border at St. Clair, Michigan, for up to 26,645 Dth of capacity per day (Exh. BSG-1, at 11). The third contract with Vector, which is under the jurisdiction of the National Energy Board of Canada, runs from the Canadian border at St. Clair to the interconnect with Union Gas at Dawn, Ontario for up to 26,645 Dth of capacity per day (id.).³ Bay State also entered into short-term (i.e., less than one year) transportation contracts with

²(...continued)

Typically, customers purchase gas when prices are low, park the gas, and take it back when gas prices are high (id.).

³ According to Bay State, in the event that the Washington 10 Agreement does not receive regulatory approval by either the Department or the National Energy Board, senior Company management or Washington 10's board of directors will reevaluate whether Vector is an optimal resource (Exh. BSG-1, at 13). If Bay State concludes that Vector is not an optimal resource, then the Company will not execute the Agreement with Vector (Exh. BSG-1, at 13).

Vector, which will be used for storage injections and withdrawals for the 2006/2007 winter season (id.).

According to Bay State, the proposed Washington 10 and Vector Agreements are a replacement resource, and not incremental resource, for the Company (id. at 7). The Washington 10 and Vector agreements will give Bay State access to gas supplies at the more competitive and very liquid Chicago price hub (id. at 8).

IV. POSITION OF THE PARTIES

A. Bay State

Bay State argues that the instant Agreements are in the public interest and should be approved (Company Brief at 5, citing Tr. at 16-17). In demonstrating that the Agreements are in the public interest, Bay State argues that the Agreements are consistent with its portfolio objectives and compare favorably to the range of alternative options reasonably available to the Company when the Agreements were negotiated (Company Brief at 8). Bay State contends that the Agreements are consistent with its portfolio objectives because the Agreements were analyzed according to the methods approved in the Company's last Department-approved forecast and supply plan (Company Brief at 8, citing Bay State Gas Company, D.T.E. 02-75 (2004)). The Company states that its portfolio objectives are to: (1) reduce portfolio costs; (2) maintain portfolio reliability, which includes enhancing diversity across pipelines and supply basins, which would be accomplished by approval the Agreements; (3) provide flexibility; and (4) acquire viable resources (id. at 14). The Company argues that, since the Department has found that Bay State's portfolio objectives were appropriate, reliable, and

reasonable, and that Bay State applied its portfolio objectives in relation to the instant Agreements, they are in the public interest (id.).

In addition to demonstrating that the Agreements are in the public interest by being consistent with its portfolio objectives, the Company must also show that the Agreements compare favorably to the range of options reasonably available to Bay State. To this end, the Company states that it performed cost simulations using its “SENDOUT”⁴ model to evaluate the impact of the proposal on Bay State’s total portfolio cost (id. at 7, citing Exh. BSG-1, at 20-21). Bay State notes that the SENDOUT analysis was performed over a ten-year period with storage and compared the Company’s total cost under the Agreements (i.e., gas purchases at Chicago and Michigan storage) with the Company’s current gas purchases at Dawn (id. at 6). Bay State claims that its SENDOUT model shows that the Washington 10 and Vector Agreements are a more cost-effective resource that contribute to a lower-cost portfolio compared with purchases at Dawn (id. at 7). The Company argues that the instant Agreements compare reasonably in terms of obtaining cheaper gas supply at the Chicago market, combined with Michigan storage, than the current alternative of procuring capacity at Dawn (id.).

Next, the Company must demonstrate that, when examined on a price and non-price basis, the attributes of the Agreements ensure a contribution to the strength of Bay State’s overall supply portfolio. Regarding the non-price elements of the Agreements, Bay State argues they offer greater flexibility than afforded to the Company for gas purchases at Dawn

⁴ The SENDOUT optimization model used by Bay State evaluate the cost effect of changes to the Company’s portfolio by simulating the daily dispatch if available resources under specified conditions (Exh. BSG-1, at 20-21).

(id. at 23). Moreover, Bay State argues that the Agreements provide it with the option to further supply security to its portfolio via direct access to the Chicago market, which enables Bay State to access supplies from Canada, the Midwest, the Gulf Coast, the Permian Basin, and the Rocky Mountains (id.).

Bay State contends that the Attorney General's argument (discussed below) that the Department should reject the Agreements is misplaced (Company Reply Brief at 1-3). While the Attorney General urges the Department to direct the Company to file a new forecast and supply plan before the Department approves any replacement capacity resource contracts, Bay State argues that local distribution companies are required to submit such filings withing two years after the Departments's final order (id.). Bay State notes that the final order in Bay State Gas Company, D.T.E. 02-75-A (2004) was issued on October 22, 2004 (id.). Thus, the Company states that it will be filing a forecast and supply plan in October 2006 (Company Reply Brief at 1).

B. Attorney General

The Attorney General argues that the Department should reject the Agreements because Bay State has not filed a forecast and supply plan since D.T.E. 02-75 (Attorney General Brief at 2-3). Instead, the Attorney General argues that the Department should direct Bay State to file a forecast and supply plan before we approve any capacity arrangements such as the instant Agreements (id. at 2-3).

V. ANALYSIS AND FINDINGS

With respect to the Company's portfolio objectives, the Agreements contribute to meeting Bay State's stated goal of developing a flexible, diversified, and least-cost portfolio (Exh. BSG-1, at 3). For the reasons set out below, the Department finds that Bay State's Agreements with Washington 10 and Vector are consistent with the portfolio objectives and supply planning process established in the Company's most recent forecast and supply plan approved by the Department in D.T.E. 02-75. Bay State's analysis of replacement capacity demonstrate that it requires access to more flexible and diverse supplies and that the Washington 10 and Vector Agreements will ensure system reliability, diversity of supply, and ultimately, cost savings for ratepayers (id. at 21 (confidential)). These Agreements give Bay State access to the Chicago market gas trading hub as well as Michigan storage supply (id. at 8-10). Thus, due to direct access provided by the Agreements to Chicago and Michigan, the evidence further establishes that the Agreements will result in less-costly gas replacement supplies than the supply that Bay State currently takes at Dawn (Exhs. FCD-1; BSG-1, at 21 (confidential)). Hence, in procuring replacement capacity further upstream from Dawn, the Company will experience savings because the Chicago trading market is a lower-cost trading market than Dawn (Exh. FCD-1). Moreover, as shown by the Company's SENDOUT analysis over a ten-year period, the Company will achieve a more cost-effective resource, and therefore, a lower-cost portfolio (Exh. BSG-1, at 21 (confidential)). Bay State has also shown that the Agreements compare favorably to the range of alternatives available to the Company's ratepayers. As demonstrated by the SENDOUT model, the Washington 10 and Vector

Agreements will achieve greater flexibility and diversity of supply at greater savings to ratepayers for gas procured at Chicago and Michigan than supply currently acquired at Dawn (Exhs. FCD-1; BSG-1, at 21 (confidential)). Therefore, the Department finds that the Washington 10 and Vector Agreements are preferable to the Company's other alternatives.

The Department also finds that the Agreements provide both price and non-price advantages compared to the alternative resource options available to Bay State. Specifically, the Agreements will provide reliable replacement supply because of the assurance that primary delivery points will be used, and that reliable suppliers can be selected at each delivery point (Exh. BSG-1, at 21). In terms of flexibility and diversity of replacement supply, as noted above, the Washington 10 and Vector Agreements will provide direct access to Chicago market and Michigan storage (*id.* at 22). Hence, the Department finds that the Agreements provide both price and non-price advantages compared to purchases at Dawn.

Turning to the Attorney General's argument that we should reject the Agreements because Bay State has not filed a forecast and supply plan since D.T.E. 02-75, the Department recognizes that more than two years have past since Bay State filed D.T.E. 02-75. However, the Department has interpreted the two-year filing requirement of G.L. c. 164, § 69I, as commencing from the date of a final order in a proceeding. Therefore, since the final order in D.T.E. 02-75-A was issued in fourth quarter of 2004, Bay State is required to file a new forecast and supply plan in the fourth quarter of this year.

VI. ORDER

After due notice, hearing, and consideration, it is

ORDERED: That the precedent agreement for firm natural gas between Bay State Gas Company and Washington 10 Storage Company is hereby APPROVED; and it is

FURTHER ORDERED: That the long-term transportation agreements between Bay State Gas Company and Vector Pipeline Limited Partnership and Vector Pipeline L.P. are hereby APPROVED; and it is

FURTHER ORDERED: That Bay State Gas Company shall comply with any and all other directives contained in this Order.

By Order of the Department,

\s\

Judith F. Judson, Chairman

\s\

James Connelly, Commissioner

\s\

W. Robert Keating, Commissioner

\s\

Brian Paul Golden, Commissioner

In appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.